

**PROGRAM FOR INSTITUTIONAL STRENGTHENING OF THE TAX AND CUSTOMS
ADMINISTRATIONS**

(NI-0105)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Nicaragua	
Executing agency:	Ministry of Finance [Ministerio de Hacienda y Crédito Público] (MHCP)	
Amount and source:	IDB: (FSO)	US\$10.0 million
	Local counterpart funding:	US\$ 2.5 million
	Total:	US\$12.5 million
Financial terms and conditions:	Amortization period:	40 Years
	Disbursement period:	3.5 years
	Interest rate (first 10 years):	1 %
	Interest rate (thereafter):	2 %
	Inspection and supervision:	1 %
	Credit fee:	0.50 %
Objectives:	<p>The general objective of the program is to support the establishment of a Tax Revenue Administration (AIT) and a Customs Service Administration (ASA) and the strengthening of these entities which will be accorded the authority to decentralize their administrative, financial, and technical functions and human resources management. Specifically, the program seeks: (a) to raise the professional and technical level of AIT and ASA staff; (b) to support the process of modernization of administration, finance, technology, and human resources management in both entities; (c) to make the collection of tax revenues and customs duties more efficient; and (d) to modernize the audit and inspection methods used by both agencies. The various program components are described below.</p>	
Description:	<p>Organizational development and human resources management (US\$2.23 million). This component seeks: (a) to support the introduction of regulations governing tax and customs administration; (b) to strengthen institutional capacity for planning, management, and supervision in both institutions; (c) to restructure the decision-making process in both institutions; and (d) to</p>	

restructure human resources management and training, with a focus on developing management skills.

Support for audit and inspection (US\$2.07 million). To strengthen this aspect of tax and customs administration (a) support will be provided at the central level for activities with indivisibilities (planning, coordination of audits, and performance evaluation, etc.) and activities with significant externalities (high-impact cases, methodology development, and information retrieval, etc.); and (b) at a decentralized level, support will be afforded for operational activities.

Information technology (US\$2,859,000). The program will respond to AIT and ASA requirements for: (a) management skills and information systems development; (b) autonomy in the area of administration, finance, and human resources; (c) additional demands resulting from the new focus on audit functions; (d) expansion of communications networks; and (e) replacement of obsolete equipment. In addition, the ASA agreed to continue using the present SIDUNEA system, and support the development of applications to ensure its compatibility.

Infrastructure (US\$2.5 million). To remodel the DGA's existing customs facilities in order to expedite the flow and movement of customs traffic and in specific areas to support the development of information technology.

Benefits:

The program will support the creation of the AIT and the ASA and the strengthening of these entities, which administer tax revenues in an amount equivalent to 26% of GDP. The institutional development is expected to help balance fiscal accounts, raise social spending to acceptable levels, maintain economic stability, and generate higher domestic savings.

The program will help reduce evasion of taxes and customs duties, by bringing individuals who presently pay no taxes into the system, thus increasing tax revenues without raising taxes or customs duties and making for horizontal equity in the tax and tariff systems.

Also, taxpayers will benefit from the modernization of tax administration services through more efficient procedures while exporters, importers, transporters, shipping companies, and customs agents will benefit from more expeditious customs procedures.

Lastly, the program will consolidate and deepen previous operational reforms, particularly in human resources management, audit, information technology, management training, and support for institutional professionalism, all of which will result in more effective revenue collection and lower administrative costs.

Risks:

Operations such as the one proposed generally entail political risks during the phase of parliamentary debate and owing to the possible inability of leadership at the middle and senior management levels to carry through the reforms. Such risks have been minimized by the total support shown by the national authorities in pursuing the earlier operational reforms as well as those proposed in the present program. In this same vein, it is important to note that the support lent by the government for making reform in the area of audit and inspection feasible, i.e. meeting the fiscal targets of the IMF extended structural adjustment facility, the implementation of the Tax Fairness Act, and modernization of the customs system.

To minimize any problems associated with leadership at the various levels of management, consulting services will be used under the program for improving management skills and closely monitoring this component. Also, in the area of human resources management, mechanisms have been designed to heighten institutional awareness of the need for change and to counteract potential resistance to change by offering training for redundant staff, regular information on the reform process for officials, etc.

Relationship of project in the Bank's country and sector strategy:

The purpose of the Bank's strategy is to achieve sustainable development with equity based on the prerequisites of macroeconomic stability and consolidation of structural reform. The present program is consistent with this objective insofar as it supports the strengthening of agencies that take in public revenues, a factor that will generate domestic savings, lower fiscal inflationary pressures, and bring social spending up to acceptable levels.

Environmental review and social considerations:

The CESI recommended that: (a) ASA staff training should include subjects relating to the import of toxic materials, hazardous goods, endangered species, and exports of archaeological and historical artifacts (paragraph 2.5.d.v.), and (b) renovations at customs facilities take local environmental standards into account (paragraph 2.10).

Special contractual conditions:

Conditions precedent to the first disbursement:

- (a) The Law establishing the Tax Administration and Customs Services Administration must be in force (paragraph 1.46).

- (b) The Steering Committee, the Executing Unit, and their two technical units must be set up and functioning, and the local and international coordinators for the program appointed (paragraph 3.1).
- (c) The National Regulations for the Central American Uniform Customs Code II (CAUCA II) must be in force (paragraph 2.5).
- (d) The agreements between the AIT and ASA governing program execution must be signed (paragraph 3.1).
- (e) The contract with the Inter-American Center of Tax Administrators for advisory assistance on technical execution and administrative management of the program must be signed (paragraph 3.7).

Special disbursement: Once the borrower has fulfilled the conditions precedent to the first disbursement specified in special condition (a) and conditions of article 4.01 (a), (b), and (e) of the general conditions, the Bank will authorize a special disbursement for the equivalent of up to US\$100,000 to initiate program activities, including actions to facilitate fulfillment of the conditions precedent.

Poverty-targeting and social sector classification:

This operation does not qualify as a social equity enhancing project as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704); nor does this operation qualify as a poverty-targeted investment.

Procurement:

International competitive bidding will be compulsory for the procurement of goods valued at more than US\$250,000 and construction works valued at more than US\$2 million. Contracts below these thresholds will be governed in principle by local legislation. In the case of consulting services with contracts valued at more than US\$200,000 (paragraph 3.4).

Exceptions to Bank policy:

It is suggested that the Inter-American Center of Tax Administrators (CIAT) be hired directly by the borrower. The CIAT will be responsible for procurement of goods and services and for hiring of consultants to ensure fulfillment of the relevant terms and conditions of this contract, in accordance with the Bank's procedures (paragraphs 3.6 and 3.7).

No other exceptions.